THE COMMONWEALTH OF MASSACHUSETTS
Public Employee Retirement Administration Commission
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M E M O R A N D U M

TO: All Retirement Boards

FROM: Robert F. Stalnaker, Executive Director

RE: COLA Questions

DATE: May 26, 1998

During the course of the last several weeks PERAC has responded to a number of inquiries regarding the COLA. In order to assist Boards in implementing that statute we have compiled this list of questions and answers.

1. What is the COLA that can be granted for FY99?

   Chapter 32, section 21(3)(f) requires the PERAC Actuary to file a report which reflects the increase in the United States Consumer Price Index as determined by the Commissioner of Social Security or 3 per cent whichever is less. Chapter 32, section 103 (c) states that if a COLA is granted by a retirement board the "…the retirement allowance pension or annuity… shall be increased by the percentage as recommended by said report."

   Earlier this year PERAC notified the Boards that the increase in the United States Consumer Price Index that forms the basis for FY99 COLAs is 2.1%. Thus in accordance with the statute, the COLA that can be granted for FY99 is 2.1%.

2. Do recipients of non-contributory pensions receive a COLA?

   Chapter 17 revised the provisions of the previous law to state that COLAs will apply to "every member" of the system rather than "every former employee". Chapter 32, section 25(3) makes it clear that non-contributory retirees are no longer members of the retirement system.

Thus non-contributory retirees are **not** eligible for a COLA granted pursuant to section 103.

3. How long must a member be retired in order to receive a COLA?

   Chapter 32, section 103(c) states that if the Board grants a COLA "…the retirement allowance, pension, or annuity of every member of the system who has received a retirement allowance, pension or annuity on June 30 of the prior fiscal year…" will be increased. Similar language is included for spouses and other beneficiaries. Retirement Boards must act to grant a COLA prior to the beginning of a fiscal year. It is this date of action that relates to the prior fiscal year language. That date of action takes place in the fiscal year prior to the retiree receiving the COLA and after the end of the fiscal year in which the member must have retired in order to be eligible. The retirement board must act during FY98 to grant a FY99 COLA.

   Consequently, in order to be eligible for a COLA to be received in FY99 the member (spouse or beneficiary) must have been receiving a benefit on June 30, 1997.

4. What steps must be taken to grant a COLA for FY99?

   The retirement board and the local legislative body must adopt Chapter 17. This is only the first step.

   Following adoption of Chapter 17(Chapter 32, section 103) the retirement board must act to grant a COLA for FY99.

   Both of these steps must take place prior to July 1, 1998 for a COLA to be provided in FY99.

5. What is the impact of acceptance of Chapter 17 (Chapter 32, section 103) on supplemental payments provided under Chapter 32, section 12(2) option d, Chapter 32, section 101, Chapter 32, section 12B, and Chapter 526 of the Acts of 1963?

   Paragraph (g) of Chapter 32, Section 103 as inserted by section 8 of Chapter 17 provides that "notwithstanding any provision of this section to the contrary…the supplemental payments…shall be…in an amount equal to the cumulative percentum change in the cost of living resulting from the determination of the actuary…"

Consequently, payments made pursuant to those provisions are increased without retirement board action by the percentage set forth in the PERAC report.

6. What impact does Chapter 17 have on COLAs on the supplemental dependent allowance provided by Chapter 32, Section 7(2)(a)(iii)?

   Chapter 32, section 7(2)(a)(iii) states in part, "Beginning July first, nineteen hundred and eighty-nine, the supplemental dependents allowance rate shall be increased by an amount equal to the percentage increase of the cost of living determination made by the general court for such year pursuant to section one hundred and two." Chapter 17 did not amend this provision. No local action is necessary for this change in the rate to take place.

   As a result, the supplemental dependent allowance provided by Chapter 32, Section 7(2)(a)(iii) will increase at the rate of the COLA granted by the Legislature and Governor pursuant to Chapter 32, section 102. This increase applies to all such benefits paid to state and to local retirees in systems that have accepted the provisions of .Section 7(2)(a)(iii).